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My friends and colleagues, it is a pleasure, as always, to be with you.

As a participant in the Banking Institute from its beginnings, it is very gratifying to see how successful and influential it has become. This year's event includes (to paraphrase President John F. Kennedy) an array of talent unheard of since Thomas Jefferson dined alone. Given Mr. Jefferson's association with another university – "The University" to some of us – such a comparison is perhaps uncalled for when discussing an event sponsored by the University of North Carolina. Please forgive me; the Devil (Blue perhaps?) made me do it.

Feeble attempt at humor aside, this year's Institute includes articles and panels regarding issues that are crucial to the future of banking in the United States. As important as these issues are, there is a more fundamental question to be addressed: toward what end are our endeavors directed? How are the activities of stakeholders and thought leaders in banking law and policy related to the health of the industry and the welfare of the nation? As important as the structure of the industry and the agencies that supervise it is – and it is very important – whether what we do serves the public interest is more important. I would like to share with you a few ideas about what is needed to that end.

First, we must acknowledge that the performance of the industry and its stakeholders has been less than perfect and that change is necessary. North Carolina, the Southeast and much of the nation profited significantly over the recent past through easy credit and continually rising real estate prices; that is, until the bill came due. The party's over and personal and governmental budgets are feeling the strain. Whether you want to call it "deleveraging," "the new normal," or something else, the current situation confronting the industry and its stakeholders is characterized by financial distress, discounted real property values, low economic growth and high unemployment. My office has been engaged in the last year or so in subprime foreclosure prevention efforts; going forward, we are seeking new authority to help homeowners in the prime category who are now experiencing difficulty. While I hope that the optimists about the economy are correct and that green shoots will soon appear, I must tell you that my colleagues and I are not seeing evidence of the recovery yet in our work, either with banks or homeowners.

What does the nation need in these circumstances? Among many other things, it needs financing for the recovery and for sustainable economic growth over the long term. To meet these needs, banks must help restructure real estate finance; increase business lending, particularly to small businesses; and help consumers save. These are tall orders, but necessary for the good of the industry and the nation.

As everyone in this room is aware, residential real estate lending is a source – in some views the source – of the meltdown in financial markets and the related downturn in the economy. It is certainly true that lingering problems in the residential real estate market pose a very real threat to economic recovery. Recent experience makes clear that these problems won't just go away. The residential real estate market, including the mortgage market, has to be fixed to aid recovery.

Banks should be central to the reinvention of the residential mortgage market. The damage that has been done to the non-bank "originate and distribute" channel for home mortgages has put banks in a good position to reclaim a substantial share of residential mortgage originations. In the case of conforming loans, this line of business is familiar to banks and should at least provide fee income and the basis for more broad-based customer relationships. While an increase in conventional business is helpful to the recovery, it is not sufficient. In many markets, there is both an inventory of unsold homes and a "shadow inventory" of foreclosed homes that has to be cleared in order for those markets to return to health. Clearing this inventory requires the making of non-conforming loans, including jumbo mortgages and restructured loans to low and moderate income borrowers. Expanded mortgage lending can help the healing process both for banks and the markets they serve. Such activity will require enhanced risk management and pricing to reflect risk and the cost of capital allocated to it.

In addition to home mortgages, the commercial real estate market has experienced a substantial reduction in values that has had a severe and damaging impact on our banks. This problem is not exclusive to the banks; it is shared by REITs and institutional investors. Here again, banks must lead. As painful as it is, banks must raise capital and restructure their commercial real estate portfolios to reflect realistic current values. It is only in this way that banks can bring themselves back to health. Once healthy balance sheets are restored, banks can and should provide the financing of viable commercial projects, both their own and those formerly financed by others, on terms that reflect the "new normal" valuations in the relevant markets, the risks and the costs of capital. This can, and I hope will, lead to a rebirth of the secondary market in commercial real estate loans.

Small business lending should become an area of greater emphasis for banks as the real estate business, including particularly acquisition and development lending, is right sized in loan portfolios. If we are serious about the commitment the industry has to "the communities it serves," small business lending should be a growing segment of the business of banking. The importance of this activity is hard to overstate. North Carolina businesses employing less than 100 people account for 90% of all businesses operating in the state, 45% of the non-governmental workforce and 45% of state domestic product. The importance of adequately financing our existing small businesses and supporting the creation of new ones is crucial to a return to health of our economy, both in the Tar Heel State and throughout the country.

Small business lending is risky and, if supported by SBA guarantees, can be paper intensive. The good news is that, under Governor Perdue's leadership, North Carolina is doing something to address both the risk and the administrative cost of this important activity. I am pleased to be a part of this effort, led by our new Commissioner of Small Business Scott Daugherty, to organize and focus North Carolina's small business education, support and financing resources, so that small business owners will be fully prepared to seek credit and small business lenders fully prepared to extend it and to take advantage of SBA and other governmental support efficiently and effectively. This isn't just a public relations exercise: small business lending is crucial to economic recovery and is a potential source of earning assets for banks.

Finally, banks should be the place that our people look when they think of saving. This begins with the establishment of accounts for all of our citizens who wish to be "financial citizens" and who are willing to conduct themselves with the prudence necessary to financial citizenship. Access to the payment system is the first step to the accumulation of wealth in a sustainable way, including credit when the customer is ready for it. Like small business lending, this is a matter of significance. In North Carolina in 2006, over 784,000 federal income tax returns were filed claiming the Earned Income Tax Credit, the beneficiaries of which are low wage working people, usually with children. EITC filings accounted for 20% of all tax returns filed in North Carolina. EITC is a good proxy for working poor families, the segment of our population that is unbanked or under-banked. This segment of our population – not an insignificant one – includes the vast majority of subprime mortgage borrowers and the users of "alternative financial services." Their financial wellbeing affects their families, their employers and their communities. In my view, the moral, social and economic implications of granting these people financial citizenship are obvious.

In addition to access to basic services, banks can and should address the savings needs of customers for retirement and other goals. While the savings rate in the United States appears to be going up, it is still abysmally low and continues to undermine the long term financial health of many of our fellow citizens and the nation as a whole. The percentage of my generation – the so-called "baby boomers" – with little or no retirement savings is shockingly high and the clock is running out. My fellow boomers and I need help now to at least begin to manage our affairs in a way that reduces poverty in our ranks and prevents the imposition of an expensive and sad burden on our children and grandchildren. Banks can have an enhanced role in addressing this important and increasingly imminent need if they so choose.

The needs I have just mentioned aren't original and shouldn't have surprised any of you. Analyzing them is relatively easy; doing something about them less so. This is because addressing them requires that all of the stakeholders in banking change both their policies and their operating methods. To be specific:

- Banks must wean themselves from the relatively large and profitable construction and development loans that have comprised between 10 and 20% of their loan portfolios and from consumer fees as the main component of non-interest income. The economic and regulatory "new normal" for them will require a heightened reliance on individual and business credit and asset management relationships that will be smaller and (absent enhanced risk management and cost control) less profitable.

- Regulators must quit trying to correct a perceived lack of rigor during the boom by tightening up during the bust so that banks have time to work through their problems. They also should remove obstacles to the injection of new and badly needed capital into the industry, by which I mean: Platonic standards for potential private equity investors and the imposition of regulatory capital requirements that make the obtaining of even reasonable economic returns to investors impossible.

- Non-governmental enterprises should drop the view that access to credit and the payment system should come at little or no cost, either in dollars or conduct, to low and moderate income folks. Here again, reducing or eliminating economic returns to banks and their investors will reduce the number of banks offering needed services or, in the worst case, the number of banks generally.

In sum, all stakeholders – including your servant – need to rethink our roles and focus on the big picture. Each of us has to give something up to get what we all want: a healthy industry, economic recovery and sustainable long term economic growth.

In the United States, banking is different from other commercial and financial enterprises. From the beginning, when banks were created by legislative charter, through the current day, when they are heavily regulated business corporations, banks have been impressed with the public interest in ways other firms have not. Dramatic, if not revolutionary developments in information and communications technology and deregulation have profoundly changed the banks and the environment in which they operate. The results have been, to be charitable, mixed; with enhanced access to credit and capacity in the payment system offset by increased industry concentration, loss of control over risks and destruction of capital.

If the banking industry is to return to health, there will need to be substantial changes. Meeting the needs of the nation can and should be good business. All of us can and should participate in restructuring the industry to serve the nation, both now and in the future. If we pull together we can do a lot of good.

Thank you.